MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

BAC3654 – PROFESSIONAL ETHICS

(All sections / Groups)

31 MAY 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **5** pages (excluding cover page) with **4** Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Your company is planning to build a new factory in the developing country. Due to ineffective laws to prevent the forced displacement of the poor community, the land that the factory is to be built on might be forcefully requisitioned from the poor community. There are about 400 families stayed on the land which had been owned by their family for four generations. Analysis shows that the new factory investment will be more profitable than other alternatives because of the cheaper labour and land costs. The company plan to relocate these families nearby the new factory at a cheaper an unrealistic compensation.

Last week, the poor community held a protest, claiming that the company had failed to consult them prior to the land requisition decision. Beside the forcefully requisition and unrealistic compensation, the poor community argued that living too near to the new factory would put the health of the residents living in the area at risk and this issue has not been discussed so far. They have also threatened to disrupt the construction of the new factory.

Therefore, during the board of directors meeting, your audit committee shared the following information that being retrieved from the World Bank website. The objective of the sharing is to ensure that the boards are aware on the World Bank's concern.

The World Bank recently acknowledged a troubling fact: While working to rid the world of poverty through projects that required moving millions of people, such as dam construction, urban renewal, and rural development, it did not sufficiently monitor their compensation and resettlement. As a result of these failures, the World Bank is unsure whether the displaced were properly reimbursed for what they lost or provided with a new home or farmland.

The current controversy emerged after the World Bank conducted three internal reviews that it then released to the public last month. The reports concluded that "sizeable gaps in information point to significant potential failures in the Bank's system for dealing with resettlement." World Bank President Jim Yong Kim noted that he planned to address the shortcomings, telling journalists, "I believe that we must do better."

The World Bank's failure to effectively track the implementation of its own robust safeguards for resettlement and land compensation means that it cannot determine whether the myriad government projects it funded did more good than harm. All this is a tragic reminder that development without protection for peoples' land rights can be self-defeating. That is because land ownership is often the bedrock of other development interventions: owning land boosts nutrition, educational outcomes, and gender equality.

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The converse is equally true. Where land security is absent or weak—that is, when men and women do not receive recognized legal rights to their land and can thus be easily displaced without recourse—development efforts flounder, seeding injustice and conflict, undermining conservation efforts, and frustrating efforts to escape poverty.

Furthermore, land is consistently ranked among the sectors where people most often report having to pay bribes to access services, according to Transparency International's Global Corruption Barometer. For instance, the global data shows that the incidence of bribes paid for land services can be over 50% in countries such as Cambodia, India and Pakistan.

Corruption in land governance is commonly defined as the abuse of entrusted power for private gain while carrying out the functions of land administration and land management. When land investors target countries with weak governance, the risk of corruption is high. Likewise, corruption is more likely to occur when local elites are able to manipulate their country's land governance systems for their own benefit. Tackling corruption in the administration and processes for land management is a critical area for reform because of its broad impact on socioeconomic development.

Required:

a. Discuss the decision to build the new factory in the developing country based on 5-Questions Approach.

(10 marks)

b. Explain the effect of corruption from the perspective of utilitarianism, deontology and fairness.

(9 marks)

c. Based on the above case, discuss **3 (three)** importance of recognising stakeholders' interest.

(6 marks)

[TOTAL 25 MARKS]

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QUESTION 2

Your company has been assigned to audit Mizuno Corporation recently. Being a reputable corporation in aerospace engineering, Mizuno is planning to list on a Japan stock exchange within four months. In order to be listed, Mizuno is required to adhere to the listing rules of the stock exchange. Being the core element of listing rules, Mizuno is required to comply with the corporate governance principles.

Currently, Mizuno has twelve executive directors, three non-executive directors and a non-executive chairman. All of the directors have been members of the board for at least eight years. The non-executive chairman, Mr Suzuki, is a former executive director of Mizuno. In addition, one of the current non-executive directors is a former executive director that was retired last year and was asked to take on non-executive roles. The company has established an audit committee which being chair by Mr Suzuki and all members of the audit committee were previously involved in marketing related roles.

None of the Mizuno's directors has a clear understanding of good governance practice. Boards are unsure whether they are following the best practice in relation to the required corporate governance principles. The company also has not established an internal audit function to monitor internal controls. Hence, during the recent Board of Directors meeting with the audit engagement partner, the Chief Executive Officer (CEO) had asked the audit engagement partner for his view on these two matters.

Required:

a. Briefly discuss **5 (five)** corporate governance weaknesses that being practiced by Mizuno Corporation.

(10 marks)

b. Explain **3 (three)** recommendations to Mizuno Corporation to ensure compliance with corporate governance principles.

(9 marks)

c. Briefly state **3 (three)** important of non-executive directors in supporting a sound corporate governance practice in a company.

(6 marks)

[TOTAL 25 MARKS]

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QUESTION 3

Being the head of internal audit department of Barbados Corporation, Sally was instructed by the audit committee of the company to investigate and evaluate the status of Calcuta Project. Calcuta Project is currently incurring high costs and fails to meet the progress project deadlines. Sally's cousin, Rose is the project manager for Calcuta Project and no one in the company knows about their relationship.

This project is a major project for Barbados Corporation since last 2 years. This project involves migration of customers' details from the old customer management system to a new customer database. The new customer database will ensure data integration and increase the accessibility of customer data significantly. Hence data analysist can be conducted more efficiently.

During the recent meeting with the audit committee, the Board already decided to cancel Calcuta Project as the project is likely to incur huge cost overruns that will not represent value for money project for Barbados. The cancellation of this project will negatively affect many members of staff including Sally's cousin. They are likely to lose their jobs. When Sally told her cousin about the board's decision, her cousin started putting pressure on her to hide the true status of Calcuta Project. At the end of their conversation, Sally told her cousin that she plan to write a favourable project status and recommend that the project should be allowed to complete as planned. Sally is under pressure to prepare the favourable report to the audit committee. At the same time her evaluation team keep remind her to prepare the unfavourable report to the audit committee soonest possible.

Required:

a. Based on the above case, explain the nature of professionalism as an accountant that should influence Sally's behaviour.

(4 marks)

b. Briefly discuss **5 (five)** fundamental ethical principles that may influence Sally's behaviour as a qualified accountant and leader of the internal audit department.

(15 marks)

c. Sally faces ethical threats to her independence from the dilemma. Evaluate **2 (two)** ethical threats that relevant in the above case.

(6 marks)

[TOTAL 25 MARKS]

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QUESTION 4

a. Auditing companies often provide non-auditing services, such as management consultancy, tax advice or human resources consultancy. By providing both auditing and non-auditing services to the same client, however, the auditors might compromise the quality of services provided. Briefly discuss **3 (three)** effects of auditing companies offering non-auditing services to their clients.

(6 marks)

b. Briefly explain the GONE theory indicators. Provide example of each indicator.

(10 marks)

c. Discuss the requirements of 'change of company auditor' from the perspective of the Malaysian Institute of Accountants (MIA) By-Laws.

(9 marks)

[TOTAL 25 MARKS]

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